

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Nakano Analyst: Jeani Brent Bill Number: AB 465

Related Bills: See Prior Analysis Telephone: 845-3410 Amended Date: 04/12/1999

Attorney: Doug Bramhall Sponsor:

SUBJECT: Research Expenses Credit/Conform Alternative Incremental Credit to Federal Formula

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

☒ DEPARTMENT POSITION CHANGED TO neutral.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 16, 1999 STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would eliminate the provisions that make the state alternative incremental research expenses credit (AIRC) a reduced percentage of the federal credit amount, so that the federal percentages also would apply for state purposes.

SUMMARY OF AMENDMENT

The April 5, 1999, and April 12, 1999, amendments changed only the coauthors of the bill and made a technical correction. The department's analysis of the bill as introduced February 16, 1999, still applies, with the exception of the revised revenue estimate and the new position.

TAX REVENUE ESTIMATE

Revenue losses under the PITL and B&CTL are estimated to be as follows:

Effective Tax Years After December 31, 1998 Assumed Enactment After June 30, 1999 (in millions)			
1999-0	2000-1	2001-2	2002-3
(\$8)	(\$13)	(\$17)	(\$18)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Board Position:

☐ S
☐ SA
☒ N

☐ NA
☐ O
☐ OUA

☐ NP
☐ NAR
☐ PENDING

Department/Legislative Director

Date

Johnnie Lou Rosas

4/16/1999

TAX REVENUE DISCUSSION

The above revenue impact was estimated as follows. First, the revenue loss from the alternative incremental credit under the existing B&CTL was estimated for 1994 using FTB B&CTL samples as well as other corporate financial data. Next, the revenue loss from the alternative incremental credit under the proposed higher credit rates provided in this bill was estimated using the same data. The differences between these two amounts are the B&CTL revenue impact of this bill. The revenue losses were extrapolated using reported aggregate R&D credit claimed by California corporations from 1994 to 1997 and Department of Finance projected annual growth rates of corporate profits. Finally, the revenue impact under the PITL was assumed to be equal to 1% of the B&CTL impact and was added to the B&CTL impact.

In the department's prior analysis, the revenue impact was estimated as a loss of \$25 million 1999-00, \$30 million in 2000-01, \$30 million in 2001-02, and \$35 million in 2002-03. The above projected revenue losses are lower because the earlier estimates did not take into account the changes in the alternative incremental credit rates under California laws that were enacted in 1998 and are applicable to tax years beginning on or after January 1, 1999.

POSITION

Neutral.

At its March 23, 1999, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill as introduced February 16, 1999.